

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
NOVEMBER 15, 2007, BOARD MEETING**

BOARD MEMBERS PRESENT: Mike Gessner, President
Clarence Corneil, Trustee
Kim Franz, Trustee
Lowell Latimer, Vice President
Wayne Sanstead, State Superintendent
Kelly Schmidt, State Treasurer
Bob Toso, Trustee

STAFF PRESENT: Steve Cochrane, Executive Director
Fay Kopp, Deputy Executive Director
Paula Brown, Retirement Programs Specialist
Les Mason, Internal Audit Supervisor
Darlene Roppel, Administrative Assistant
Shelly Schumacher, Retirement Program Manager
Dottie Thorsen, Internal Auditor
Denise Weeks, Retirement Programs Specialist

OTHERS PRESENT: Erica Cermak, NDRTA
Chris Conradi, GRS
Paul Erlendson, Callan Associates Inc.
Dr. Warren Henke, Retired
Ruth Stefonowicz, NDEA-Retired
Leslie Thompson, GRS
Nick Whitman, NDEA
Aaron Webb, Attorney General's Office

CALL TO ORDER:

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the meeting to order at 1:00 p.m. on Thursday, November 15, 2007, at the State Capitol, Ft. Union Room, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: PRESIDENT GESSNER, MR. CORNEIL, MRS. FRANZ, DR. LATIMER, DR. SANSTEAD, TREASURER SCHMIDT, AND MR. TOSO.

MINUTES:

The Board considered the minutes of the September 20, 2007, board meeting.

TREASURER SCHMIDT MOVED AND DR. SANSTEAD SECONDED TO APPROVE THE MINUTES OF THE SEPTEMBER 20, 2007, BOARD MEETING.

AYES: TREASURER SCHMIDT, MRS. FRANZ, DR. SANSTEAD, MR. TOSO, PRESIDENT GESSNER, MR. CORNEIL, AND DR. LATIMER

NAYS: NONE

MOTION CARRIED.

BOARD EDUCATION:

Actuarial Fundamentals - Mrs. Fay Kopp, Deputy Executive Director, introduced Mr. Chris Conradi, Senior Consultant, Gabriel Roeder Smith & Company (GRS), Dallas, TX. He has been TFFR's actuarial consultant since 1990. Mr. Conradi introduced Ms. Leslie Thompson, who is an actuary with GRS, Denver, CO.

Ms. Thompson presented information on the actuarial fundamentals of pension funding, including how retirement plans work, benefit promises under TFFR, defined benefit funding, actuarial assumptions, actuarial cost methods, key measurements, and monitoring trends. A copy of the presentation is on file at the administrative office. Board discussion followed.

Financial Economics Overview - Mr. Conradi presented an overview of the financial economics debate which is taking place in the actuarial industry. The debate questions the use of traditional actuarial, accounting, and investment practices for pensions. A copy of the presentation is on file at the administrative office. Board discussion followed.

The board recessed at 2:40 pm and reconvened at 2:50 pm.

2007 TFFR ACTUARIAL VALUATION REPORT AND FUNDING ISSUES:

Mr. Conradi presented TFFR's Actuarial Valuation as of July 1, 2007. He described the new legislation enacted in 2007 which creates a new tier of benefits for employees hired on or after July 1, 2008. These benefit changes include Rule of 90, 5-year vesting, and 5-year average final average pay. The employer contribution rate increases from 7.75% to 8.25% effective July 1, 2008, and will sunset back to 7.75% when TFFR is 90% funded. Employer contributions are also required for retirees who have returned to a TFFR position, effective July 1, 2007.

Mr. Conradi stated the number of active members increased from 9,585 to 9,599, a 0.1% increase. Over the last 10 years active membership has decreased an average of 0.5% per year. Payroll for active members increased 2.9%, from \$390.1 million to \$401.3 million. Average pay for the active members increased 2.7%, from \$40,703 to \$41,810. The average age of active members is 44.7, compared to 44.8 last year and 43.4 ten years ago. Average years of service is 14.5, compared to 14.6 last year and to 14.0 ten years ago. The number of retirees increased from 5,893 to 6,077, a 3.1% increase. The average annual retiree benefit is \$17,207. There are 1.6 active members for each retiree, which has decreased from 2.2 ten years ago.

Fair market value of assets increased from \$1,720 million to \$2,030 million. There were \$34.5 million (including service purchases) in member contributions, and \$31.9 million in employer contributions. Total distributions which include benefit payments, refunds and administrative expense totaled \$104.7 million. While there is a net external cash flow, this is not a problem for TFFR.

The return on market was approximately 20.4% for fiscal year (FY) 2007. The average return for the last ten years was 8.5%, which is 0.5% above the 8.0% investment return assumption. The smoothed actuarial value of assets is \$1,750 million, compared to \$1,564 million last year. There is \$279.6 million in deferred gains which will be recognized over the next four years.

TFFR's unfunded actuarial accrued liability (UAAL) decreased from \$509.9 million to \$459.2 million. TFFR's funded ratio increased from 75.4% to 79.2%. However, based on market value, TFFR's funded ratio is 91.9%, up from 83.0%. The UAAL is 114.4% of covered payroll, compared to 130.7% last year. The negative margin decreased from -4.54% to -2.40% and the funding period remains infinite. TFFR's employer contribution rate for FY 2007 was 63.1% of GASB Annual Required Contribution (ARC). The contribution for FY 2008 will be 76.4% of ARC. These numbers are reported in TFFR's Comprehensive Annual Financial Report (CAFR).

Mr. Conradi provided projections which show that the positive investment experience, plus contribution and benefit changes enacted by the 2007 legislature, should greatly improve funding over the next ten years, assuming an 8% annual market return net of expenses, no actuarial gains or losses, and no other changes in plan provisions. He noted that investment returns greater or less than 8% could cause future funding projections to vary considerably from year to year, and the \$280 million in deferred gains may be needed to offset future investment losses.

Mr. Conradi also made some general comparisons between NDITFFR and other public retirement systems, including NDPERS. He explained that in many cases, teacher systems cost more than general employee systems. Differences in assumptions, demographics, actuarial methods, and benefit provisions affect funding levels and contribution rates. Examples include: greater number of females in teacher systems; longer life expectancies for females, and teachers in general; tendency of teachers to retire earlier; lower turnover rates applicable to teachers;

differences in expected future salary increases; differences in expected future payroll growth; age and service distributions; ratio of active members to annuitants; ratio of liabilities to total payroll; different actuarial methods; and difference in how large (if any) the UAAL is to be amortized.

A copy of the 2007 valuation report and presentation is on file at the Administrative Office.

After discussion and questions,

TREASURER SCHMIDT MOVED AND MR. CORNEIL SECONDED TO ACCEPT THE 2007 VALUATION REPORT AS PRESENTED.

AYES: PRESIDENT GESSNER, MR. TOSO, DR. LATIMER, TREASURER SCHMIDT, MR. CORNEIL, DR. SANSTEAD AND MRS. FRANZ

NAYS: NONE

MOTION CARRIED.

Treasurer Schmidt left the meeting at 4:30 p.m.

SUMMARY OF 2001 RETIREE STUDY:

Mr. Conradi gave a brief summary of the Retiree Study conducted by GRS in 2001. After reviewing the main conclusions of the study, he indicated the cost to raise all retirees up to the 2.0% multiplier at that time would have been about \$57 million. Discussion followed on the affordability of funding a future retiree benefit improvement. The Board directed GRS to provide information at the January meeting on the cost of a 13th check for retirees and the impact it would have on the Fund. The Board also asked Mrs. Kopp and GRS to update the 2001 Retiree study and provide information at a future meeting on increasing retiree benefit levels to the 2.0% multiplier.

Dr. Sanstead left the meeting at 4:50 p.m.

LEGISLATIVE UPDATE:

Mrs. Kopp and Mr. Conradi reported on the Legislative Employee Benefits Programs Committee (EBPC) meeting which was held November 14, 2007. Mrs. Kopp also presented the general legislative work plan. She indicated interest group representatives will be invited to participate in the January 2008 board meeting to discuss proposed 2009 legislation.

ADMINISTRATIVE RULES:

Mrs. Shelly Schumacher, Retirement Program Manager, presented copies of the proposed administrative rule changes, a small entity regulatory analysis, and the reason the changes are being implemented. After discussion,

MR. CORNEIL MOVED AND DR. LATIMER SECONDED TO APPROVE THE ADMINISTRATIVE RULE CHANGES.

AYES: MR. CORNEIL, DR. LATIMER, PRESIDENT GESSNER, MR. TOSO AND MRS. FRANZ.

NAYS: NONE

MOTION CARRIED.

INVESTMENT UPDATE:

Mr. Steve Cochrane, Executive Director, reviewed the agenda for the November 17, 2007 State Investment Board (SIB) meeting. The Governance meeting will be rescheduled since the Lt. Governor and chairperson cannot be in attendance. TFFR's investment return fiscal year-to-date is about 0.5%.

ANNUAL TFFR PROGRAM AUDIT REPORT:

Mr. Les Mason, Internal Audit Supervisor, presented TFFR's annual program audit report. The 10 school districts audited were either in compliance or generally in compliance. A copy of Mr. Mason's report is on file at the Administrative Office.

MR. TOSO MOVED AND MRS. FRANZ SECONDED TO APPROVE THE TFFR AUDIT PROGRAM REPORT.

AYES: MRS. FRANZ, PRESIDENT GESSNER, DR. LATIMER, MR. CORNEIL AND MR. TOSO.

NAYS: NONE

MOTION CARRIED.

ACTUARIAL CONTRACT:

Mrs. Kopp highlighted information relating to the GRS actuarial contract and fees. The Board discussed issuing a Request for Proposal (RFP) for actuarial services or extending the current GRS contract. After discussion, the Board directed Mrs. Kopp to re-negotiate fees with GRS for another two-year period.

MEMBER AND EMPLOYER CONVENTIONS UPDATE:

Mrs. Schumacher updated the Board on the annual conventions TFFR members, employers and staff participate in each year.

Mrs. Kopp commented on a resolution passed at the 2007 convention of the North Dakota Retired Teacher Association (NDRTA).

NCTR CONVENTION REPORT:

Mr. Corneil, Dr. Sanstead, Dr. Latimer and Mrs. Franz commented briefly on the National Council on Teacher Retirement (NCTR) convention they attended October 7-11, 2007, in Scottsdale, AZ.

CONSENT AGENDA:

MR. CORNEIL MOVED AND MRS. FRANZ SECONDED TO APPROVE THE CONSENT AGENDA WHICH INCLUDED FOUR DISABILITY APPLICATIONS.

AYES: MR. TOSO, MR. CORNEIL, MRS. FRANZ, PRESIDENT GESSNER, AND DR. LATIMER.

NAYS: NONE

MOTION CARRIED.

OTHER:

Mrs. Kopp noted there is an updated board calendar and education plan included in the board materials. She also recognized and thanked Mr. Nick Whitman, North Dakota Education Association Executive Director, who has resigned from his position, and is returning to Wisconsin.

The next board meeting will be held on January 17, 2008.

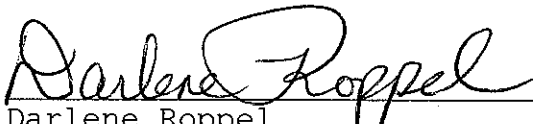
ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 5:38 p.m.

Respectfully Submitted:



Mr. Mike Gessner, President
Teachers' Fund for Retirement Board



Darlene Roppel
Reporting Secretary